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INFO RUEHAC/AMEMBASSY ASUNCION 5967  
RUEHBO/AMEMBASSY BOGOTA 3285  
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RUEHCV/AMEMBASSY CARACAS 1674  
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E.O. 12958: N/A  
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SUBJECT: REPSOL AND PETROBRAS NEGOTIATIONS UPDATE

REF: LA PAZ 1248

11. (SBU) Summary: Hydrocarbons company Repsol (Argentina/Spain) told Econoff June 28 that it expected Argentina to agree to a price increase on Bolivian natural gas exports on June 29. Press reports on June 29 indicated that the agreement would be in effect until December 31 and include an export volume commitment of 7.7 million cubic meters per day. Both Repsol and Petrobras (Brazil) executives lamented the slow pace of negotiations with YPFB (Bolivia's state oil company) following the GOB's May 1 hydrocarbons nationalization decree. Petrobras contacts said Brazil is worried about Argentina agreeing to a higher gas price, as it would put pressure on Brazil to do the same. Petrobras is also concerned about possible gasoline shortages that may result from YPFB taking over for gas wholesalers on June 30 when the wholesalers' contracts expire. End summary.

#### Argentina - Bolivia Gas Price Negotiations

12. (SBU) The Argentinean energy firm Repsol YPF Bolivia told Econoff June 28 that Repsol was not involved in the negotiations between the governments of Argentina and Bolivia concerning the price of Bolivian natural gas exports to Argentina. Repsol executive Miguel Cirbien speculated that the current price of around USD 3.53 per million BTU would be increased to approximately USD 5 per million BTU and that the new price would be announced on June 29 through the release of a bilateral agreement (press reports and televised statements by the Bolivian Hydrocarbons Minister confirmed this). He said that the price increase would benefit Repsol YPF Bolivia, as it would increase sales earnings, but would hurt Repsol YPF Argentina, which buys the gas.

13. (SBU) Press reports indicated that the agreement, in which Bolivia would pledge to export up to 7.7 million cubic meters per day to Argentina, would be in effect until December 31, at which time the two nations would sign a 20-year agreement for a new price. Cirbien speculated that the 20-year

agreement would contain a commitment by the GOB to increase gas exports to Argentina from the current rate of around 5 million cubic meters per day to around 20 million cubic meters. This increase, he explained, would require the construction of an additional pipeline to Argentina, which would take three to four years to complete. Also, significant additional investment in the Bolivian gas industry, including new well perforation, would be required to increase Bolivian production capacity. The GOB would have to provide production incentives to obtain additional investment, but such incentives/investment seem unlikely given the government's current nationalization and taxation policies.

#### Repsol - YPFB Negotiations

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¶4. (SBU) According to Cirbien, negotiations with YPFB (the Bolivian state oil company) following the GOB's May 1 nationalization decree (reftel) are going slowly, as YPFB is insisting on "imposition rather than negotiation." He said that the GOB has not yet provided Repsol with a new model contract, but promised to do so soon. He told us that the two board members named by the GOB (reftel) to replace the two positions formerly held by the pension funds are actively participating in board meetings. The other two directors named by the GOB on May 8 have not yet taken up their positions, as the GOB has not yet acquired the additional shares from Repsol needed for majority control over the company. YPFB is conducting an audit of Repsol and will value its shares based on the audit results. The government has not yet made a purchase offer for the approximately 2 percent of Repsol shares that it will need to gain majority control of the company in accord with the nationalization decree. Cirbien concluded that Repsol wants to reach agreement with the GOB, but if that is not possible, Repsol will resort to international arbitration.

#### Petrobras - YPFB Negotiations

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¶5. (SBU) An executive from Brazil's Petrobras, Arturo Castanos, told Econoff June 28 that Petrobras' negotiations with the GOB were going poorly. The GOB repeatedly asks Petrobras for information, but refuses to enter into serious discussions, Castanos explained. He said that the GOB did not understand that it should compensate Petrobras for the present value of its refineries, rather than the value that it paid for them years ago.

#### Petrobras Worried About Argentina Price Negotiations

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¶6. (SBU) Castanos said Brazil was worried about the June 29 meeting between Argentina and Bolivia on gas export prices. An agreement by Argentina to pay more for Bolivian gas would increase the pressure on Brazil to accept a similar increase. Although higher gas prices would benefit Petrobras' Bolivian operations, the cost to its Brazilian operation would outweigh the benefit. He said that the agreement between Bolivia and Argentina would be political, without economic justification. He did not see how it would be possible for Bolivia to agree to provide Argentina more than 7.7 million cubic meters per day, as Bolivia lacked the production capacity for a higher quantity.

#### Potential Gasoline Shortages

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¶7. (SBU) Castanos also expressed concern about the scheduled June 30 takeover of gas wholesaler responsibilities by YPFB (Bolivian state oil company), which could result in gasoline shortages and intensify the existing liquid petroleum gas (LPG) shortage, likely leading to blockades and protests. He explained that the gas wholesalers' contracts expire on June 30 and that YPFB would theoretically begin transporting gasoline from Petrobras' refineries to gas stations on that date, but that it was not prepared to do so. Petrobras and YPFB were also at an impasse regarding payment of transportation costs, which YPFB was trying to make the refineries pay. In addition to taking over the wholesalers' functions, YPFB also plans to acquire ownership of the

nations' 450 gas stations (400 are privately owned, 50 belong to YPF already).

18. (SBU) Comment: Although there is private sector interest in investing in an additional pipeline between Argentina and Bolivia, there is little interest in investing in Bolivian production given the current political climate and high taxation rates. Without this investment, Bolivia would not be able to meet additional gas export requirements to Argentina, meaning that any agreement to increase export volumes would be more of a declaration of intent than a binding commitment. The announcement of a gas price increase for Argentina three days prior to constituent assembly elections may boost the MAS' (Movement Toward Socialism party) popularity at the polls. However, the current LPG shortage and potential gasoline shortages due to GOB policies could have the opposite effect, neutralizing the benefit of such an announcement. End comment.  
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